



Village of South Corning Clerk-Treasurer's Records and Reports

Report of Examination

Period Covered:

March 1, 2015 – April 27, 2017

2017M-114



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

November 2017

Dear Village Officials:

A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and Board of Trustee governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard local government assets.

Following is a report of our audit of the Village of South Corning, entitled Clerk-Treasurer's Records and Reports. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law.

This audit's results and recommendations are resources for local government officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government
and School Accountability*

Introduction

Background

The Village of South Corning (Village) is located in the Town of Corning in Steuben County (County) and has a population of approximately 1,100 residents. The Village is governed by a Board of Trustees (Board), which is composed of four Trustees and a Mayor. The Board is responsible for the general management and control of the Village's financial affairs. The Village's annual budget for the 2017-18 fiscal year is approximately \$790,000, funded mainly through real property taxes, sales tax, user fees and State aid.

The Mayor is the Village's chief executive officer responsible for the day-to-day management of the Village under the direction of the Board. The Board appoints the Clerk-Treasurer who is the chief fiscal officer (CFO) and Clerk of the Board. As the CFO, the Clerk-Treasurer is responsible for the custody of all Village money, maintaining accounting records and preparing monthly and annual financial reports. The Clerk-Treasurer's duties include processing payroll, billing water and sewer users and maintaining customer accounts. The Clerk-Treasurer is also the budget officer who is responsible for preparing the tentative budget and presenting it to the Board for review and approval. The Clerk-Treasurer has served in this position for over 22 years and is assisted by a Deputy Clerk-Treasurer (Deputy) in performing his duties.

Objective

The objective of our audit was to examine the Clerk-Treasurer's records and reports. Our audit addressed the following related question:

- Did the Clerk-Treasurer accurately and completely account for, record and report all financial transactions in a timely manner?

Scope and Methodology

We examined the Clerk-Treasurer's records and reports for the period March 1, 2015 through April 27, 2017. We extended our review of interfund advances back to February 2011.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix B of this report. Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

**Comments of Local Officials
and Corrective Action**

The results of our audit and recommendations have been discussed with Village officials, and their comments, which appear in Appendix A, have been considered in preparing this report. Village officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and forwarded to our office within 90 days, pursuant to Section 35 of General Municipal Law. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Board to make this plan available for public review in the Clerk-Treasurer's office.

Clerk-Treasurer's Records and Reports

The Clerk-Treasurer's financial records and reports must be complete, accurate and up-to-date to be useful for managing Village operations. The Clerk-Treasurer, as CFO, is responsible for performing basic accounting functions, including maintaining accounting records and providing financial reports to the Board and outside entities. The Board must ensure the Clerk-Treasurer maintains reliable records and reports and have an annual audit conducted of the Clerk-Treasurer's records.

The Clerk-Treasurer did not accurately and completely account for, record and report all financial transactions in a timely manner. Consequently, the Board was unaware of the Village's true financial position and adopted unrealistic budgets. Because the Board did not perform an annual audit of the Clerk-Treasurer's books and records, these errors and deficiencies went unidentified and uncorrected.

Accounting Records

New York State Village Law (Village Law) requires the Clerk-Treasurer to keep a complete and accurate account of the receipt and disbursement of all money. All general ledgers, cash receipt and disbursement journals and subsidiary revenue and appropriation ledgers must be maintained in a complete, accurate and timely manner. The Clerk-Treasurer should perform monthly reconciliations of control accounts to subsidiary records, cash to adjusted bank balances and ensure interfund advances are in balance to timely identify and resolve any discrepancies.

The Clerk-Treasurer did not maintain complete, accurate and timely accounting records. The Clerk-Treasurer maintained manual accounting records for all funds. The Clerk-Treasurer and his Deputy maintained computerized payroll, water, and sewer records. The Clerk-Treasurer made payroll disbursements from the general fund's checking account but often failed to transfer funds in a timely manner from the water checking account because of insufficient funds. However, had the Clerk-Treasurer deposited relieved water rents to the water checking account instead of the general fund checking account upon receipt, sufficient funds would have been available. Because the Clerk-Treasurer failed to record all transactions, make necessary and properly record interfund transfers, record the receivable for the water debt assessment fee and improperly recorded cash transfers as expenditures, the recorded and reported cash balances, receivables, liabilities, revenues, expenditures and fund balance for each fund were incorrect (See Figure 1).

Figure 1: Account Balances as of January 31, 2017

Account	OSC Calculated Balance	Accounting Records Balance	Overstated (Understated)
General Fund			
Cash	\$324,621	\$164,167	(\$160,454)
Other Assets	\$16,710	\$15,198	(\$1,512)
Liabilities	\$177,935	\$163,476	(\$14,459)
Fund Balance	\$101,170	\$6,003	(\$95,167)
Revenues	\$621,550	\$619,868	(\$1,682)
Expenditures	\$559,324	\$609,981	\$50,657
Water Fund			
Cash	\$50,878	\$58,101	\$7,223
Other Assets	\$28,483	\$42,783	\$14,300
Liabilities	\$0	\$0	\$0
Fund Balance	\$97,034	\$116,821	\$19,787
Revenues	\$186,365	\$187,970	\$1,605
Expenditures	\$204,039	\$203,907	(\$132)
Sewer Fund			
Cash	\$115,341	\$116,620	\$1,279
Other Assets	\$37,202	\$36,759	(\$443)
Liabilities	\$3,108	\$0	(\$3,108)
Fund Balance	\$72,044	\$90,676	\$18,632
Revenues	\$288,564	\$279,148	(\$9,416)
Expenditures	\$211,172	\$216,445	\$5,273

Had the Clerk-Treasurer compared the adjusted bank balance from his bank reconciliation to recorded cash and reconciled subsidiary ledgers to control accounts, these errors could have been detected and corrected in a timely manner. These inaccuracies prevented the Board from making informed financial decisions. Finally, the lack of accurate accounting records also increases the risk of loss or unauthorized use of Village funds.

The lack of current and accurate accounting records and reports can compromise internal controls and make hiding fraudulent activity easier. Therefore, we reviewed 45 tax receipts totaling \$43,329 from the general fund and 646 receipts totaling \$109,591 from the water and sewer funds. Generally, receipts were deposited timely and intact. However, the Clerk-Treasurer inappropriately exchanged three personal checks totaling \$145 and a payroll check for a friend totaling \$210 for cash from the cash receipts on hand.

We also reviewed 167 canceled checks for claims that were approved by the Board totaling \$236,265 from the three funds and found 18 checks totaling \$32,211 (14 percent) lacked support. Of the 18 checks, six were for health insurance totaling \$22,973, four were for credit cards totaling \$3,905 and the remaining eight appeared to have been for appropriate Village expenses. This occurred because the Board members did not thoroughly audit the claims to ensure they had supporting documentation before authorizing them for payment. We reviewed all health insurance bills from the employees' union totaling \$192,539 and all credit card statements from the vendor totaling \$32,124 to determine whether only eligible employees were insured and purchases were appropriate and whether remittances were made in a timely manner. Although only eligible employees were included on the health insurance bills, the Clerk-Treasurer failed to remit a monthly health insurance payment in a timely manner, which resulted in late fees totaling \$715. In addition, we were unable to determine if half the credit card purchases totaling \$13,729 were appropriate due to a lack of receipts because neither the Village nor the credit card company could provide documentation about the purchases. Finally, the Clerk-Treasurer did not pay four credit card payments on time causing late payment fees of \$148 and finance charges totaling \$91.

Reports

The Clerk-Treasurer should submit monthly financial reports to the Board that summarize receipts and disbursements. To be more useful to the Board, these reports should also include cash balances and a comparison of budget-to-actual results of operations and reconciled bank statements. Also, the Clerk-Treasurer is required to file the Village's annual financial report also known as the annual update document (AUD), with OSC within 60 days following the close of the fiscal year, with the option of a 60-day extension, if requested. Also, the Clerk-Treasurer is required to provide the Board with budgetary projections that reflect actual historical data and trends, include all revenues and appropriations in the budget, advise the Board of needed budgetary adjustments and properly allocate employee salaries to funds based on job duties. It is essential that the Board ensure that the accounting records are timely and accurate so that the financial reports can be used to oversee financial activities and monitor the budget. The Board's ability to make sound financial decisions is hampered when it does not receive complete, accurate and timely financial information. Interim and annual financial reports are essential tools needed by the Board to properly conduct its fiduciary oversight responsibilities.

Monthly Reports — The Board received monthly reports that included trial balances and budget-to-actual reports from the Clerk-Treasurer. The monthly reports included cash balances and the balances of other asset and liabilities for all three funds. The budget-to-actual reports included the budgets, monthly and year-to-date

revenues and expenditures and the balances remaining in the budgets for all three funds. However, the Board did not receive reconciled bank statements with the financial reports. Further, because of the inaccurate accounting records previously discussed, the reports were inaccurate and the Board was unaware of the Village's true financial position. Specifically, that the general fund balance was understated by \$95,167 and the water and sewer fund balances were overstated by \$19,787 and \$18,632 as of January 31, 2017.

Annual Report — The Clerk-Treasurer submitted an inaccurate 2016 AUD that was 88 days late. When OSC notified the Clerk-Treasurer that the interfund activity did not balance the Clerk-Treasurer provided information to OSC to balance the incorrectly reported interfund activity. However, he did not make these adjustments to his books and records. Further, the Clerk-Treasurer's proposed adjustments were not appropriate to correct his accounting records. Therefore, his accounting records continued to be out of balance for the 2016-17 fiscal year.

The AUD allows the Board and the public to assess the Village's financial operations and financial condition. If the Board had received accurate monthly reports with reconciled bank statements, it would have seen that the adjusted bank balances did not reconcile with the accounting records, potentially identified errors and had more reliable information on which to base its financial decisions.

Budget — The Clerk-Treasurer provides the Board with the general, water and sewer fund appropriations for the previous year and the current fiscal year as modified. He also provides recommendations and estimated revenues for all three funds including actual revenues for the previous year and estimated revenues for the current year.

Because the Clerk-Treasurer's books and records were inaccurate, he did not provide the Board with budgetary projections that reflected actual historical data and trends of revenue and expenditure activity during the budget development process. For example, the water fund budget did not include an appropriation for debt principle and interest payments totaling \$71,183 or the assessment fee revenue totaling \$57,544 for 2016-17. Had this information been included, the Board could have realized that the anticipated fees to be collected would not be sufficient to cover the debt payments. In addition, as of January 31, 2017, seven expenditures exceeded appropriations by \$53,972 in the general fund, three expenditures exceeded appropriations by \$71,803 in the water fund and three expenditures exceeded the appropriations by \$3,724 in the sewer fund. Without available appropriations as needed by law, the Clerk-Treasurer should have advised respective department heads that they had overspent these budget items and

worked with them to identify budget amendments to propose for Board approval. Finally, the Clerk-Treasurer failed to properly allocate employee salaries to the three funds based on job duties when preparing the budget. For example, the Deputy was mainly responsible for processing payroll and water and sewer billings and payments, yet her wages were not allocated to the water and sewer funds.

As a result, the Board lacked the information necessary to oversee the Village's financial activities and adopt realistic budgets and was unaware of the Village's true financial position.

Annual Audit

Village Law requires the board to annually audit, or have a Village officer, employee or an independent public accountant audit, the Treasurer's financial records to provide an independent verification that transactions have been properly recorded and cash has been properly accounted for. It also provides board members with an added measure of assurance that the financial records and reports contain reliable information on which to base financial decisions.

The Board did not perform, or contract with an independent auditor to perform, an annual audit of the Clerk-Treasurer's books and records. The failure to perform an annual audit diminished the Board's ability to monitor the Village's financial operations. If the Board performed this fundamental duty, it may have identified the errors in the accounting records, lack of adequate reconciliations and other deficiencies in a timely manner and could have implemented corrective action.

Recommendations

The Clerk-Treasurer should:

1. Maintain accurate and timely accounting records and assure their accuracy by comparing account balances with adjusted bank cash and subsidiary records and ensure that interfund accounts are balanced on a monthly basis and all adjusting entries are recorded. Any discrepancies should be investigated and resolved immediately.
2. Discontinue using Village funds to cash personal checks and other non-work related checks.
3. Include reconciled bank statements with the monthly reports provided to the Board.
4. File the Village's AUD with OSC within 60 days after the close of the fiscal year.

5. Provide the Board with budgetary projections that reflect actual historical data and trends of revenue and expenditure activity during the budget development process. Also, include all revenues and appropriations in the budget, advise the Board of needed budgetary adjustments before appropriations are overspent and allocate employee salaries to the three funds based on job duties.

The Board should:

6. Ensure all claims have supporting documentation before authorizing them for payment.
7. Ensure the Clerk-Treasurer files the Village's AUD in a timely manner.
8. Conduct an audit, or arrange for an audit, of the Clerk-Treasurer's records and reports on an annual basis.

APPENDIX A
RESPONSE FROM LOCAL OFFICIALS

The local officials' response to this audit can be found on the following page.

Village of South Corning

7 Clark St., Corning, NY 14830
(607) 936-3642

November 6, 2017

Office of the State Comptroller
The Powers Building
16 W. Main St., Suite 522
Rochester, NY 14614

RE: Audit Response for Village of South Corning, **Audit 2017M-114**

Dear Office of the State Comptrollers,

The Village of South Corning Board of Trustees agrees with the audit's findings and is now and has been taking action and instituting policies to fully comply with the recommendations spelled out in the report.

The audit was enthusiastically embraced by the Board because it allowed for our operations to be fully assessed by the State Comptroller's Auditors.

This has strengthened our commitment to be fiscally responsible and transparent in executing our duties as representatives of the residents of the Village of South Corning.

Thank you,

James A. Thomas Sr., Mayor
Village of South Corning

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We interviewed Village officials responsible for financial oversight and maintaining accounting records, and reviewed Board minutes to obtain an understanding of the Village's policies, procedures and financial reporting.
- We reviewed the Village's financial records (e.g., trial balances, general ledgers and journal entries) and compared them to bank statements to determine whether all receipts and disbursement were recorded from March 1, 2016 through January 31, 2017.
- We compared financial records for the general, water and sewer funds to adjusted bank balances, subsidiary reports and payroll information to calculate the trial balances as of January 31, 2017. We also compared the February 29, 2016 records to determine what portion of the adjustments identified was from prior periods.
- We extended our review of interfund transfers and canceled checks from all bank accounts back to February 28, 2011 and through January 31, 2017 to determine transfers that were not payroll related to and from the general fund, water fund and sewer fund and the balances for interfund advances.
- We reviewed taxes relieved with the County for 2016-17 to determine the tax receivable balance as of January 31, 2017.
- We obtained open account balances for the water and sewer customer accounts from the Village's software vendor to determine the accounts receivable balances as of January 31, 2017.
- We performed a cash count of the Clerk-Treasurer on January 31, 2017.
- We verified the footing of the cash receipts journal, traced postings in the cash receipts journal to the control accounts and subsidiary ledgers and compared recorded receipts to bank deposits to determine whether deposits were timely from March 1, 2016 through January 31, 2017.
- We randomly selected one month (April 2016) and footed the tax receipts journal, traced to the control account and subsidiary ledgers, and compared recorded receipts to bank statements determine whether deposits were timely, intact and properly recorded.
- We randomly selected the second quarter of 2016 calendar year and traced all cash receipts for water and sewer bills in the computer software to duplicate receipts, the bank statements and deposit compositions to determine whether deposits were timely, intact and properly recorded.

- We verified the footing of the cash disbursements journal, traced postings to the control accounts and traced canceled checks to payrolls and abstracts from March 1, 2016 through January 31, 2017.
- We scanned all bank statements and canceled checks from March 1, 2015 through January 31, 2017 for checks made out to the Clerk-Treasurer or cash and determined whether they were supported and reasonable.
- We randomly selected one month from March 1, 2015 through February 29, 2016 (December 2015) and two months from March 1, 2016 through January 31, 2017 (June 2016 and January 2017) to determine whether disbursements were supported.
- We obtained and reviewed health insurance bills from the employees' union for the period March 1, 2015 through January 31, 2017 to determine whether payments were timely.
- We obtained credit card statements from the vendor for the period March 1, 2015 through January 31, 2017 to determine whether all purchases were supported, appropriate and timely.
- We obtained and reviewed water and sewer adjustments from the software vendor for the period March 1, 2015 through January 31, 2017 to determine if they were supported, approved and properly recorded.
- We determined the bank balance as of January 31, 2017 in the water project revenues checking and savings accounts, and the estimated revenue to be generated by comparing the past six quarterly billing summaries for unmetered water sales to the schedule of debt payments to determine when water project revenue would be depleted.
- We obtained filing documentation for the AUD to determine whether it was filed in a timely manner. We also reviewed records to determine whether adjustments to the AUD were recorded.

We conducted this performance audit in accordance with GAGAS. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

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AND SCHOOL ACCOUNTABILITY

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